

**COMMISSIONER OF SECURITIES AND INSURANCE
MONTANA STATE AUDITOR
STATE OF MONTANA**

IN THE MATTER OF THE REPORT OF THE MARKET CONDUCT EXAMINATION OF FARMERS' MUTUAL INSURANCE COMPANY OF MONTANA, Respondents.	CASE NO. INS-2010-107 FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER ADOPTING THE REVISED MARKET CONDUCT EXAMINATION REPORT OF DECEMBER 31, 2009
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Having fully considered the proposed Report of Market Conduct Examination of Farmers' Mutual Insurance Company of Montana as of December 21, 2009, the Commissioner of Securities and Insurance, Office of the Montana State Auditor, hereby makes the following findings of fact, conclusions of law and order adopting the revised market conduct examination report:

FINDINGS OF FACT

1. David Drynan and Kimberlee Hewitt, the Examiners representing the Commissioner of Securities and Insurance, Montana State Auditor (CSI) , conducted an examination of the affairs, transactions, and records of Farmers' Mutual Insurance Company of Montana and prepared a Market Conduct Examination Report (Report) covering the period from January 1, 2006, through December 31, 2009.
2. The verified written Report was completed and served on July 1, 2010, together with a notice giving Farmers' Mutual Insurance Company of Montana 30 days to make written submission or rebuttal with respect to any matters contained in the Report.

3. Farmers' Mutual Insurance Company of Montana provided a written submission on August 20, 2010, with respect to matters contained in the Report.
4. No changes were made to the Report as a result of the submission, but the Report was revised to clarify the findings.

CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over this matter pursuant to Mont. Code Ann. § 33-1-311, which charges the Commissioner with the duty of administering and enforcing the Montana Insurance Code, and pursuant to Mont. Code Ann. Title 33, Chapter 1, Part 4, which govern examination of insurers by the CSI ; and Mont. Code Ann. § 33-4-315 which governs examination of farm mutual insurers.
2. Pursuant to Mont. Code Ann. § 33-1-409, the CSI has authority to issue a final agency determination with respect to this Report.

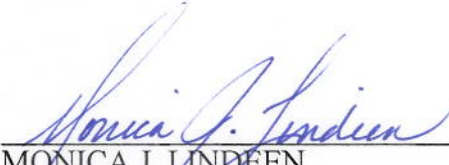
ORDER

Having carefully and thoroughly reviewed and considered the examination report, relevant examiner workpapers, and any written submissions and rebuttals in this matter, IT IS ORDERED:

1. The revised Market Conduct Examination Report of Farmers' Mutual Insurance Company of Montana as of December 31, 2009, attached hereto as Exhibit A, is hereby adopted in full.
2. Farmers' Mutual Insurance Company of Montana shall comply with the Recommendations for Corrective Action in the Report (Exhibit A) and by March 1, 2011, shall file with the CSI a letter regarding and confirming the actions taken to comply with recommendations.

3. Within 30 days of the mailing of this Order, each director of Farmers' Mutual Insurance Company of Montana shall file affidavits with the CSI stating under oath that they have received a copy of the adopted Report and related Order.
4. Pursuant to Mont. Code Ann. § 33-1-409(5), this Order and the revised Market Conduct Examination Report (Exhibit A) shall remain confidential for 30 days following the issuance of the same.

DATED this 1st day of September, 2010.

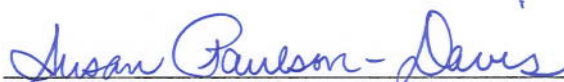


MONICA J. LINDEEN
Commissioner of Securities and Insurance
Office of the Montana State Auditor

CERTIFICATE OF SERVICE

I hereby certify that on the 1st day of September, 2010, I served a true and accurate copy of the foregoing Findings of Fact, Conclusions of Law and Order Adopting the Revised Market Conduct Examination Report as of December 31, 2009, by U.S. mail, postage prepaid and certified, to the following address:

Lonnie Bacon, Secretary
Farmers' Mutual Insurance Company of Montana
PO Box 363
Wibaux, MT 59353-0363



Office of the Commissioner of Securities and Insurance



Revised

MARKET CONDUCT EXAMINATION REPORT

of

**Farmers' Mutual Insurance Company of
Montana**

WIBAUX, MONTANA

as of December 31, 2009

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SCOPE OF EXAMINATION

The Montana Insurance Department conducted a market conduct examination of Farmers' Mutual Insurance Company of Montana (hereinafter also referred to as the Company) that covered a four-year period from January 1, 2006, through December 31, 2009.

The examination was conducted pursuant to the provisions of Mont. Code Ann. §§ 33-1-401 *et seq.* and 33-4-316, and in accordance with the procedures and guidelines outlined in the Market Conduct Examiners Handbook as adopted by the National Association of Insurance Commissioners and the Montana State Auditor's Office.

The examination was conducted at the Company's home office located at 200 So. Wibaux Street, Wibaux, MT 59353. The report of examination is respectfully submitted as follows:

OPERATIONS AND MANAGEMENT

Farmers' Mutual Insurance Company of Montana was originally incorporated as a county farm mutual insurer on July 27, 1911, under the name Farmers' Mutual Fire and Lightning Ins. Co. of Wibaux, Fallon, Dawson, Custer and Richland Counties. The Company was authorized to operate in the following counties: Custer, Dawson, Prairie, Richland and Wibaux. The Company also operated in non-contiguous counties of Carter, Garfield, McCone and Powder River. These counties were part of Custer and Dawson counties at the time the Company originally incorporated in 1911.

The Company amended its articles of incorporation on October 10, 1992, to reduce the number of directors from nine to eight and to set forth the intent of the company to operate on the cash premium plan basis. Effective March 26, 1996, the Company amended its articles of incorporation to change its status from a county mutual insurer to a state mutual insurer and to effect a name change to Farmers' Mutual Insurance Company of Montana in order to reflect the change in operations.

The Company insures property and liability risks within the State of Montana in accordance with its articles of incorporation and Mont. Code Ann. § 33-4-501.

The name of the Company as represented by its articles of incorporation and by-laws is Farmer's Mutual Insurance Company of Montana. The name used on the Company's checking account and a banner on display in the Company's office appears as Farmers Mutual Fire Insurance Company of Montana. Both of these identities differ from that set forth in the certificate of authority issued by the CSI which identifies the Company as Farmers' Mutual Insurance Company of Montana.

The Company is managed by an eight-member Board of Directors serving staggered terms. Director elections occur at the annual meeting which is held in the fall of each year. The directors serving during the time period covered by the examination are as follows:

<u>Director Name</u>	<u>Three Year Term Expires</u>	<u>Additional Term Expires</u>
Robert Zinda Wibaux, MT	2006	Replaced by Bernie Schaaf
Bernie Schaaf Fallon, MT	2009	2012
Albin Begger Wibaux, MT	2006	Replaced by Karl Muri
Karl Muri Miles City, MT	2009	2012
Lonnie Bacon Wibaux, MT	2007	*Replaced by Nick Burman
Nick Burman Glendive, MT	2007	2010
Larry Morgen Wibaux, MT	2007	2010
Dennis Wolff Circle, MT	2007	2010
Gerald Goroski Wibaux, MT	2008	2011
Kenneth Nemitz Glendive, MT	2008	2011
Larry Veverka Richey, MT	2008	2011

*Nick Burman was appointed to fill Lonnie Bacon's position when she became an employee of the Company. He was elected on 10/31/2006 to fill the remainder of the term expiring in 2007. In 2007 he was elected to an additional three-year term.

Larry Veverka and Gerald Goroski served as President and Vice President, respectively throughout the time period covered by the examination.

Sarah J. Volk served as Secretary/Treasurer and Manager until Lonnie Bacon accepted the position on June 27, 2007. Ms. Bacon has continued in that capacity throughout the time period covered by the examination.

The financial records of the Company are reviewed annually by the directors. Beginning with the 2008 fiscal year, the Company contracted with a local CPA firm to perform an annual financial audit.

The Company has no formal fraud procedures in place; however, prior to the time period covered by the examination, the Company transitioned from using Company directors to independent adjusters to adjust claims. This change has served to raise the Company's awareness of potential fraud exposures. The company has sought the advice of legal counsel when presented with questionable claims.

The Company does obtain a signed authorization for Disclosure and Collection of Information at the time of application; however, the company has not developed a Privacy Policy. Therefore, individuals have not been provided a notice of Privacy Information Practices at the time of a transaction, application, or during each successive year a policy is in force in violation(s) of Mont. Code Ann. § 33-19-202.

During the time period covered by the examination, the recorded minutes of the Board of Director's meetings contain individually identifiable information of insureds and claimants, which, if disclosed or disseminated beyond the Board of Directors and immediate Company management, constitutes violation(s) of Mont. Code Ann. § 33-19-306.

COMPLAINT HANDLING

Farmers' Mutual Insurance Company of Montana does not maintain a complaint register as required by Mont. Code Ann. § 33-18-1001. However, the Company does have adequate procedures in place to respond to and resolve complaints.

MARKETING AND SALES

The Company makes use of pens and sticky notes containing the Company's name, address and phone number. The Company does not make use of any type of advertising booklet or brochure nor do they have a website.

The Company has compiled a manual for producers and provides timely updates. The manual contains rating, underwriting guidelines, available payment plans and agent's duties. Information supplied in the training materials relative to policy content does not always accurately reflect the actual provisions of the contracts issued by the Company.

PRODUCER LICENSING

The Company utilizes a combination of independent agents and licensed directors to produce business.

The Company did not timely notify the CSI pursuant to Mont. Code Ann. § 33-17-237(1) of the termination of an appointment upon the departure of an employee who held an appointment as a licensed producer of the Company.

POLICYHOLDER SERVICE

The Company utilizes forms designed and provided by AAIS. During the time period covered by the examination, AAIS introduced a form titled *Montana Amendatory Endorsement Form*. This form provides for 45-day notice to the insured in the event of non-renewal or renewal with altered terms and is intended to comply with the provisions of Mont. Code Ann. §§ 33-15-1105 and 1106. As a Farm Mutual Insurer, the Company is not subject to the provisions of Mont. Code Ann. Title 33, Chapter 15 and the Company made a decision not to incorporate this Amendatory Endorsement into the insurance contracts it issues. The AAIS form in use by the Company provides for a 30-day notice to the insured in the event of non-renewal or renewal with altered terms. The Company's practices relative to non-renewal notice and notice of renewal with altered terms comply with the Company's By-Laws and the provisions of the contracts it issues.

Policies are billed on an annual basis with semi-annual and quarterly payment plans available. Billing notices are sent in a manner that complies with policy language. The Company practice is to provide a grace period of 30 days (20 days during 2006 and part of 2007). In the event payment is made within the grace period, a "Statement of No Losses" is obtained from the insured and coverage will be reinstated with no lapse. In the event payment is made outside the grace period, the policy may be re-written with no coverage having been provided from the initial due date until the inception date of the re-written policy.

Applications for coverage and requests for policy changes are completed in a timely, accurate manner. Company communications of coverage lapses, reductions and requests for removal of coverage between lienholders, mortgagees and insureds are concise and well documented.

Insured requested cancellations are processed in a timely manner according to established company practice which reflects industry standards.

UNDERWRITING AND RATING

During the time period covered by the examination the Company began the transition from issuing policies that provided for a five-year policy period to policies providing for an annual policy period. The company re-underwrites the policy every five years through a new application and agent review.

The applications and rating manuals designed and used by the Company during the time period covered by the examination allow for the selection of "**Peril (A-B).**" The Company has designated **Peril A** as Fire or Lightning and **Peril B** as Wind and Hail. Although the Company practice is to refer to **Peril B** as Wind and Hail, in reality the selection of **Peril B** provides the insured with coverage for a loss caused by the additional perils listed in the applicable policy form.

The declarations pages issued by the Company provide a numeric, line-by-line listing of coverage limits, the type of property to which the coverage limit applies, and a numeral that correlates to the physical location of the property. To the right of each one of these individual entries appears one of the following entries: (A), (A-ACV), (A&B), (A&B-ACV only) or (A&B-RC). The acronym ACV is representative of Actual Cash Value Loss Settlement Terms. The acronym RC represents Replacement Cost Loss Settlement Terms.

During the time period covered by the examination the Company used AAIS forms FO-1 Ed 1.0; FO-2 Ed 1.0; FO-4 Ed 1.0; and FO-6 Ed 1.0. These policy forms, under the heading PROPERTY COVERAGES, refer to **Coverages A, B, C, D** and so forth. **Coverage A** refers to the "residence"; **Coverage B** to "related private structures"; **Coverage C** to "personal property"; and **Coverage D** to "additional living costs and loss of rent".

Form FO-6 1.0, used by the Company to provide Farm Coverage, references **Coverage E** as "Farm Barns, Buildings and Structures"; **Coverage F** as "Scheduled Farm Personal Property"; and **Coverage G** as "Unscheduled Farm Personal Property."

The Company's practice of using letters to identify **perils** alone or in combination with an acronym for settlement terms on the application and declaration page is not consistent with the language in the policy coverage forms which assign letters to **property coverages** and numerals to **perils**. This conflict in terms creates ambiguity within the insurance contract.

The Perils Section of AAIS policy forms FO-1 Ed 1.0 and FO-2 Ed 1.0 states, "We insure against direct physical loss to property covered under **Coverages** A, B, or C caused by the following perils, unless the loss is excluded under the General Exclusions." AAIS Form FO-6 Ed 1.0 contains language identical to that found in FO-2 Ed 1.0 with the exception of the **coverage** lettering, (E, F & G). The perils section of Form FO-4 Ed 1.0 has identical language applicable to **Coverage C**.

AAIS policy form FO-1 Ed. 1.0 contains 11 named and numbered perils. AAIS policy form FO-6 Ed 1.0 contains 16 named and numbered perils. The loss settlement provisions as described in the forms are on the basis of Actual Cash Value. AAIS endorsements FO-15 Ed 1.0, ML-145 Ed 1.3, FO-341 Ed. 1.0 and FO-200 Ed. 1.0, if used properly, act to alter the settlement provisions.

The Company's underwriting practice is to use forms FO-1 Ed. 10 or FO-6 Ed 1.0 to offer a policy providing coverage limited to the perils of Fire or Lightning by designating the particular line item on the declarations page with an (A). The designation of (A & B) on the declarations page indicates coverage for Fire or Lightning & Windstorm or Hail. The Company may use these designations alone or in combination with an acronym for the applicable loss settlement provisions.

The Company's rating structure is such that a lower rate per thousand dollars of coverage is applied to **Peril A**, (Fire or Lightning) while an increased rate is applied to **Peril B**, (Wind and Hail) on Forms FO-1 Ed 1.0 and FO-6 Ed 1.0.

The language in the AAIS policy forms used by the Company during the time period covered by the examination does not anticipate or accommodate the Company's practice of selecting or limiting individual perils and or loss settlement provisions and applying them to each insured line item through the use of a declarations page containing acronyms that are not used or defined elsewhere in the contract.

During the time period covered by the examination the Company used AAIS policy forms IM-850 Ed 1.0 titled FARM MACHINERY – COVERAGE A and IM-851 Ed 1.0 titled FARM MACHINERY – COVERAGE B to insure farm machinery. These forms do not afford coverage on a named peril basis. These inland marine coverage forms provide for all risk of direct physical loss to covered property with the exception of named exclusions. The loss settlement provisions of these forms, which are titled HOW MUCH WE PAY, provide for valuation to be based upon actual cash value of the property at the time of loss.

Policies issued by the Company during the time period covered by the examination insuring farm machinery using one or both of AAIS policy forms IM-850 Ed 1.0 and IM-851 Ed 1.0 contain a declarations page that lists one of the following to the right of each line item entry: (A), (A-ACV), (A&B), (A&B-ACV only) or (A&B-RC). The lettering of perils in this manner creates ambiguity in light of the titles and language of the coverage forms. This practice also creates conflict between the language of the policy form(s) by attempting to limit covered perils and expand loss settlement provisions through the use of a declarations page containing acronyms that are not used or defined elsewhere in the contract and without benefit of the use of endorsement(s) amending the contract.

AAIS policy form FO61 Ed 1.0 titled SCHEDULED PERSONAL PROPERTY affords coverage on an all-risk basis with named exclusions, similar to the inland marine forms used to provide coverage on farm machinery. The loss settlement provisions of this form, set forth under the heading HOW MUCH WE PAY, are dependent upon the type of property insured. The language in the forms **deductible** provision effectively eliminates any deductible on scheduled personal property by stating, "The deductible provision under How Much We Pay For Loss or Claim does not apply to coverage under this endorsement." However, the Company's rating manual mandates a minimum deductible of \$500.00 on "**FO-61 POLICY: SPECIALITY ITEMS**" coverage and the Company's rate per \$1000 of coverage on this form is based upon a deductible of \$500.00.

The manner in which specific items of property are listed on the declarations page creates the appearance of scheduling when, in fact, the insured may be receiving no enhanced benefit for the premium that is being charged.

The Company's By-Laws attempt to place restrictions and conditions upon coverage. These restrictions and conditions are in conflict with the provisions of the language contained in the AAIS policy forms.

The Company attempts to exclude coverage to aged or damaged roofing material, paint and siding merely by means of a statement on the declarations page or by means of a statement which is contained and acknowledged by the insured within a proof of loss form rather than using an endorsement to modify the contract terms.

The ambiguities set forth in the previous paragraphs are compounded by the Company's usual practice of issuing one policy per member which insures multiple physical locations, each of which may represent differentiated exposures, requiring a variety of policy forms and endorsements that may contain conflicting language. The construction of the declarations page makes it difficult, if not impossible, to determine which coverage forms, coverage parts of coverage forms and or endorsements apply to each line item being insured. In some circumstances each physical location listed on a policy may have a different mortgagee and each piece of farm machinery a different lienholder.

The issue of ambiguity created by the construction of an insurance contract has been addressed by the courts in cases such as *Walker v. Fireman's Fund Insurance Company*, 268 F Supp. 899, 901 (D. Mont. 1967), in which the Court **held that an ambiguous provision in an insurance policy is construed against the insurance company and a clause in an insurance policy is ambiguous when different persons looking at it in the light of its purpose cannot agree upon its meaning.** In the case of *Aetna Ins. Co. v Cameron*, 194 Mont. 219, 222, 633 P.2d 1212, 1214 (1981), the Montana Supreme Court stated, "Exclusions and words of limitation must be strictly construed against the insurer." (Citation omitted.) In *Lindell v. Ruthford*, 183 Mont. 135, 140, 598 P.2d 616, 618 (1979), the Court **held that if the policy language is ambiguous as applied to the facts of a case, the construction most favorable to the insured should be adopted. Such construction applies particularly to exclusionary clauses.**

The ambiguities created by the Company's practices, as identified in this section of the examination report, expose the Company to civil litigation and administrative action based upon Mont. Code Ann. §§ 33-18-201(1), (7) and 33-18-212 and applicable case law.

Policy forms in use by the Company are not adequate to provide intended coverage for certain exposures. The Company uses AAIS form GL-1 Ed 1.0, titled PERSONAL LIABILITY COVERAGE or GL-2 Ed 1.0 titled FARM PERSONAL LIABILITY COVERAGE on policies intending to provide coverage on non-owner occupied dwellings that are held for rental. These forms actually act to exclude coverage for activities related to the **business** of an **Insured** except as provided for by an Incidental Business Coverage. The definition of **business** within the insurance policy includes the rental of property to others.

During the time period covered by the examination the Company made a decision to non-renew two policies. The non-renewal notices were delivered in a timely manner and the basis for the Company's decision appeared non-discriminatory; however, the policyholder files did not contain the documentation for the basis of the decision to non-renew.

CLAIMS

During the time period covered by the examination, 450 property and casualty insurance claims were submitted to the company. The examiners selected a sample of 50 claim files for review to determine Company's compliance with the Laws, Rules and Regulations addressing insurance claims handling practices. The examiners also reviewed the files to determine if the Company was adjusting claims per the terms and conditions of the insured's policy.

Farmers' Mutual Insurance Company of Montana was, like many other farm mutual insurance companies, utilizing the services of their officers and directors to investigate and settle claims prior to the time period covered by the examination. Shortly before this examination began, the company elected to utilize, almost exclusively, the services of independent adjusters for the purpose of investigating and evaluating property damage claims. Our review of the files demonstrated the Company's practice is to issue a partial ACV (actual cash value) claim payment based upon the independent adjuster's initial evaluation and recommendation and then issue a final RC (replacement cost) claim payment when the insured submitted a "Proof of Loss" form stating the amount of the claim and attesting to the fact that repairs and or replacement of the property had been completed. The choice to use independent adjusters was made to provide the company with a consistent means of evaluating and adjudicating claims per accepted claim handling practices and standard AAIS policy provisions.

During the claim file review the examiners found that claims adjusted by independent adjusters did, in fact, provide the company with a high degree of accuracy and consistency. However, due to a very unique company underwriting practice of combining ACV and RC coverage on a single policy form, the company has created a significant conflict between the coverage provided on

the policy Declaration Page(s) and the terms and conditions contained within the body of the policy. Some claims were paid when no coverage existed per the terms and conditions contained within the body of the policy while others were paid in excess of what was required by the policy provisions. This ambiguity was applied consistently by the Company based upon its insured's expectation of coverage and the settlement terms referenced on its insured's Declarations Page. No policyholders were injured by this process as every claim was paid equal to or in excess of what was owed for the loss.

Some claims were handled directly by the Company in order to expedite the claim handling process for its policyholder. These claim files often did not contain adequate documentation necessary to support the final settlement amount nor did they contain the proper "Proof of Loss" and "Claim Notice" forms found in files referred to and handled by independent adjusters.

The Company did not routinely perform claim re-inspections of repaired or replaced property.

SUMMARY OF SIGNIFICANT FINDINGS

During the time period covered by the examination:

The Company conducted insurance operations under names that differ from that found on the Company's Certificate of Authority.

The Company has not complied with the provisions of Mont. Code Ann. § 33-19-202, **Notice of insurance information practices – delivery of notice.**

The Company's recording of individually identifiable information within the meeting minutes of the Board of Directors, if disclosed or disseminated beyond members of the board and immediate Company management, constitutes violation(s) of Mont. Code Ann. § 33-19-306.

The Company did not maintain a complaint register as required by Mont. Code Ann. § 33-18-1001.

The Company did not notify the CSI of the termination of the appointment of an employee within the time frame set forth in Mont. Code Ann § 33-17-237 (1).

The ambiguities created by the construction of the Company's insurance contracts, By-Laws, rating manuals, application forms **and endorsements** expose the Company to civil litigation and administrative violations based upon Mont. Code Ann. § 33-18-201(1),(7) and § 33-18-212 and case law.

The Company's exposure to litigation **may be** exacerbated by the practice of insuring multiple physical locations representing different exposures on a single policy.

The Company paid claims when no coverage existed per the terms and conditions contained within the body of the policy.

The number of policies in force, as a measure of the Company's business activity and policyholder servicing needs, is deceptively low due to the Company's usual practice of issuing a single policy per member.

The Company's claim files did not contain adequate documentation necessary to support the final settlement amount nor did they contain the proper "Proof of Loss" and "Claim Notice" forms found in files referred to and handled by independent adjusters.

The Company did not routinely perform claim re-inspections of repaired or replaced property.

CONCLUSION

The Market Conduct Examination Report of Farmers' Mutual Insurance Company of Montana is respectfully submitted to the Honorable Monica J. Lindeen, State Auditor and Commissioner of Securities and Insurance of the state of Montana.

The examiners wish to express their appreciation for the courteous and prompt cooperation and assistance of the officers and employees of the Company during the course of the examination.

RECOMMENDATIONS FOR CORRECTIVE ACTION

for

Farmers' Mutual Insurance Company of Montana

The Company must undertake the changes necessary to ensure the Company name as it appears upon its Articles of Incorporation, By-Laws, financial documents and correspondence is consistent with the Certificate of Authority issued by the CSI.

The Company must develop and provide notice of its insurance information practices pursuant to the provisions of Mont. Code Ann. § 33-19-202.

The Company must comply with the provisions of Mont. Code Ann. § 33-19-306 and cease the practice of recording individually identifiable information in meeting minutes.

The Company must maintain a complaint register as required by Mont. Code Ann. §33-18-1001.

The Company must notify the CSI of the termination of a producer's appointments within the time frame set forth in Mont. Code Ann. § 33-17-237(1).

The Company must provide and maintain adequate documentation for underwriting decisions within a policyholders underwriting file.

The Company must issue insurance contracts containing forms that are appropriate for the exposure to be covered.

The terminology used in the declarations pages issued by the Company must be consistent with the terminology used in policy forms. The content of the Company's By-laws, rating manual, underwriting guidelines and application forms should be amended to avoid conflict with the provisions in the insurance contracts it issues. Amended policy forms should be filed with the CSI.

Underwriting Guidelines, Rating Sheets and producer training communications must be amended to reflect the necessary changes made by the Company as a result of this examination.

The Company must cease the practice of limiting perils, amending loss settlement provisions or excluding coverage merely by benefit of the use of acronyms or a statement on the declarations page or upon a proof of loss form.

The policy declarations page must clearly illustrate the policy forms and endorsements applicable to each line item being insured.

The Company must pay claims per the terms and conditions found within the body of the policy.

The Company must obtain adequate support for all claim determinations and settlements and maintain the documentation within the insured's claim file.

The Company must utilize the correct forms for reporting and adjusting claims and maintain the documentation within the insured's claim file.

The Company must perform re-inspections of repaired or replaced property to insure they do not pay for the same damaged property more than once.

ADDITIONAL COMMENTS AND SUGGESTIONS

for

Farmers' Mutual Insurance Company of Montana


The Company should not issue policies with multiple locations representative of different exposures requiring the need for a variety of forms that may contain conflicting language.

The Company should increase staffing in order to accomplish the necessary changes.

STATE OF MONTANA)
) ss.
COUNTY OF LEWIS AND CLARK)

That they are examiners representing the State Auditor and Commissioner of Securities and Insurance, state of Montana; that pursuant to authority vested in them by the Commissioner, they examined the market conduct of of Wibaux, Montana, for the period from January 1, 2006, to December 31, 2009.

DATED this 1st day of July, 2010.


Kimberlee Hewitt, CIE, MCM

Susan Paulson-Davis

